

Army Acquisition Reform Newsletter



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Putting the Customer First in Logistics Acquisition- Incentivizing Contractor Performance

The U.S. Army Aviation and Missile Command (AMCOM) Acquisition Center has used an innovative contracting approach to award two five-year spares contracts to Raytheon Electronic Systems Company in support of the Patriot Missile System. The maximum potential value of each contract is \$166M for the first and \$149M for the second. The two contracts will provide continuous support for the PATRIOT Missile System, allowing maximum flexibility for determining quantity to be ordered at any time during the five years, as well as reduce administrative lead-time (ALT) to less than 30 days for each of the 238 line items.

Profit will be determined based on past delivery performance. This will motivate the contractor to reduce their actual production lead-times, thereby earning a higher profit to be applied to subsequent orders. The methodology to be used to determine the profit rate will be the quarterly production lead-time (PLT) report, which includes Patriot and Hawk spares orders, excluding concurrent buys. The average PLT experienced by Raytheon during the previous quarter will determine the profit to be applied to orders issued under the contract during the subsequent quarter.

Key benefits are the flexibility these five year catalog contracts will provide the customer in the expeditious ordering of specific quantities required and the reduction of administrative lead-time for all of the 238 line items. The lead-time reduction significantly lowers the dollars required for inventory investment. Other benefits include:

- (1) Operational readiness is maintained.
- (2) Response time from identification of requirement to contract award has been cut to one month versus five months typical administrative lead-time.
- (3) Significant reduction in cost of inventory due to ability to order as required over five year period and rapid response time.
- (4) Improvement in customer satisfaction. These contracts allow immediate ordering of spares as frequently as needed.
- (5) Resource Utilization - five-year contracts, covering multiple requirements, versus individual contracts for each item affords more efficient use of personnel in this era of downsizing.

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